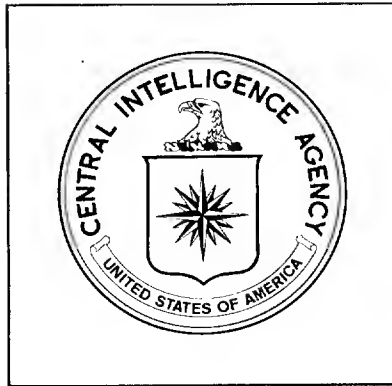


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No. 0849/75
August 29, 1975

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§ 5B(1), (2), and (3)
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This publication is prepared for regional specialists in the Washington community by the Middle East - Africa Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Approved For Release 2001/08/08 : CIA-RDP79T00865A001600320002-9

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Iran*War on Profiteers*

The government continues to press its fight against high prices. According to *Kayhan*, a Tehran English-language daily that reflects the government's position, several thousand persons have been arrested for "excessive profitmaking" since the campaign began in mid-July. Those arrested include some wealthy industrialists and a deputy provincial governor. Punishments meted out range from fines to imprisonment. Some retail shops have been closed and many leaders of Iran's guilds--organizations which represent artisans and workers in traditional trades--have been sacked for not cooperating in holding down prices.

The recent inclusion of the anti-inflation fight as an official objective of the "Shah-People revolution," plus the considerable press attention given the campaign, have served to underscore the Shah's statements that the effort is permanent policy, not a one-shot effort. The government's plan calls for rolling back retail and wholesale prices, getting the people accustomed to extensive government participation in price-setting, and modernizing the distribution system in an effort to limit profiteering by middle men.

A Price Intelligence Center is in the process of setting prices for most basic goods. Iran's single political party, a consumer protection agency, the Ministry of Commerce, and special watch-dog bodies have all been charged with ensuring compliance.

According to *Kayhan*, the program has brought about a significant reduction in retail prices; one article reports that the cost of living index has dropped 4.2 percent since mid-July. The government has yet to deal systematically with the difficult problem of the distribution network.

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Although the price reductions will be popular among middle class groups, which have suffered most from the effects of inflation, the program is essentially a superficial approach that will not remove the causes of inflation. New problems may, in fact, arise. Wide-ranging pricefixing by the central government could lead to economic dislocations and the growth of black market activity. Shortages have already appeared in some sectors because producers would rather withhold goods than sell at the lower official price.

Implicit in the Shah's program is a tacit admission that Iran's inflation--running at 25 percent annually--has local causes and is not solely the result of increases in the costs of imported manufactured goods as the Shah frequently charges. The Shah's admonitions to Western governments to cure their inflation sounded increasingly hollow in the absence of an energetic program of his own to combat local causes for rising prices.
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Sudan

Numayri Deals With Khatmiyya Sect

President Numayri held a widely publicized meeting on August 27, with Muhammad Osman al-Mirghani, leader of the large Khatmiyya Muslim sect. Local media reported that al-Mirghani used the meeting to "renew" the influential religious-political organization's support of the May 1969 revolution.

3 In fact, the Khatmiyya sect always has been lukewarm and at times almost hostile toward Numayri, depending upon the regime's foreign policy bent. Only in the last two months has the sect let itself become publicly associated with the revolution. The sect has always had strong Egyptian leanings--before 1969 some leaders favored actual union with Cairo--as well as close ties with Saudi Arabia.

25X1A 14 Numayri's apparent eagerness to embrace the Khatmiyya may be part of his recent efforts to tighten his ties with moderate Arab governments. Domestically, Numayri is attempting to protect himself from the left by laying to rest the distrust of his regime felt by at least some of the political factions that flourished before the revolution.

14 Numayri has made no recent move, however, to repair his ties with the Ansar, Sudan's other important Islamic sect. The Ansar rebelled against Khartoum in 1970; subsequent efforts by Numayri to bring the Ansar around have proved to no avail.

2 In another move on Wednesday, Numayri named five new ministers of state and relieved First Vice President al-Baghir of his other job as interior minister. Retired brigadier M.S. Ghandour was named to the post. Ghandour has been in relative obscurity in recent years as ambassador to Bonn and a presidential counselor on foreign economic cooperation. (CONFIDENTIAL)

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~~SECRET~~Pakistan*Islamabad's View of the Bangladesh Coup*

Islamabad continues to view the coup in Dacca as a favorable development for Pakistan, even though the new regime has stressed its desire to maintain good relations with India and has backed away from earlier indications that it would designate Bangladesh an "Islamic republic."

According to the US embassy in Islamabad, Pakistani officials recognize that the new government in Dacca must remain friendly toward New Delhi to avoid giving a pretext for Indian intervention. Nonetheless, the Pakistanis--who recognized the new regime on the day of the coup and promised economic aid--remain hopeful that at least a limited shift in Bangladesh's foreign policy is under way. They hope to see a reduction in the considerable influence New Delhi and Moscow wielded with the Mujib regime, as well as a strengthening of Dacca's ties with Islamabad, Washington, the Arab countries, and Peking, which has never recognized Bangladesh. The Pakistanis undoubtedly believe that such a reorientation, beside representing a modest change in Pakistan's favor in South Asian intra-regional relations, would also introduce an element of uncertainty for India on its eastern flank.

Bangladesh, for its part, is trying to establish good relations with Pakistan, whose friendship it views as necessary if it is to obtain Arab and Chinese good will and economic aid.

The Pakistanis are looking at several current or upcoming events as further indicators of Dacca's intentions. They are hoping that contacts between Bangladesh's representatives and Pakistan's observers at the nonaligned conference in Lima--Pakistan is not a member--will lead Dacca to agree to the establishment of full diplomatic relations. They hope Bangladesh will adopt a relatively neutral stance at the

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UN next month when India and Pakistan are expected to vie for the Asian seat on the Security Council. The Pakistanis also continue to hope Bangladesh is on the way to becoming a more Islamic, less secular country than it was under Mujib.

Islamabad believes that improved relations between Pakistan and Bangladesh need not impair progress toward normalizing relations between Pakistan and India. The Pakistanis remain committed to the "Simla" process, under which India and Pakistan have resolved some of their differences in a series of negotiations that began in 1972. Islamabad recognizes that if it were to abandon the Simla talks, New Delhi would become suspicious that the change in Dacca had encouraged Pakistan to adopt a policy of confrontation. India, too, is interested in further negotiations, but both countries remain deeply suspicious of each other, and rapid progress on the main unresolved Indo-Pakistani issues--a four year-old suspension of air links and the long-standing dispute over Kashmir--seems unlikely. (CONFIDENTIAL)



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